

**STATE OF NEW MEXICO
ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION**

**IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:**

**CASE NO. 11894
Order No. R-10937**

**APPLICATION OF CHESAPEAKE OPERATING, INC.
FOR AN UNORTHODOX OIL WELL LOCATION,
LEA COUNTY, NEW MEXICO.**

**RESPONSE OF
CHESAPEAKE OPERATING, INC.
TO
YATES PETROLEUM CORPORATION'S
MOTION TO STAY
DECISION ORDER R-10937**

Chesapeake Operating, Inc. ("Chesapeake") responds in opposition to Yates Petroleum Corporation's ("Yates") motion to stay Division Order R-10937 which approved Chesapeake's application to drill a Strawn oil well at an unorthodox location subject to a 10% production penalty. Chesapeake requests the Commission deny Yates' motion for the following reasons:

I. RELEVANT FACTS

Chesapeake sets forth the following factual summary because Yates' motion contains a section captioned "Facts" which are incomplete, argumentative and disputed.

1. Chesapeake has the right to drill the Salbar "16" Well No. 1 ("Salbar Well"), a Strawn oil well, on a State of New Mexico oil & gas lease which will expire on February 1, 1998.

2. On November 10, 1997, Chesapeake filed an application for hearing with the Division seeking authorization to drill its proposed Salbar Well at an unorthodox oil location 2456 feet from the North line and 1023 feet from the West line (Unit E) of Section 16, Township 24 South, Range 36 East, within one mile of the Southeast Shoe Bar-Strawn Pool to be dedicated to a standard 80-acre oil spacing and proration unit consisting of the S/2NW/4 of said Section 16.

3. On December 4, 1997, the Division held a hearing in this case.

4. Chesapeake's requested unorthodox oil well location is 184 feet from the south boundary of its spacing unit which is 146 feet closer than permitted by the pool rules which require wells to be located 330 feet from any outer boundary.

5. Yates is the working interest owner in the N/2SW/4 of Section 16 towards whom the well encroaches and has objected to this application.

6. On December 1, 1997, prior to the Examiner's hearing, Chesapeake attempted to reach an agreement with Yates whereby in exchange for a waiver of objection by Yates, Chesapeake offered the following options:

(a) consent to allow Yates to drill a mirror location on its acreage and data from the Chesapeake well in exchange for data from the Yates well; or

(b) formation of a working interest unit covering the Yates N/2SW/4 and Chesapeake S/2NW/4 pursuant to a Joint Operating Agreement whereby Chesapeake would assign 40% working interest in its tract in exchange for a 40% working interest in the Yates tract.

7. Yates rejected the settlement options proposed by Chesapeake.

8. Yates appeared at the hearing in opposition to Chesapeake and sought to have the requested location denied contending that Chesapeake should be required to drill at a standard well location in the NW/4 of said Section 16, or in the alternative, be subjected to a 60 % production penalty.

9. Chesapeake presented a detailed 3-D seismic data, validated by correlation to log data, which demonstrated that:

- (a) substantially all of the potentially productive portion of this Strawn reservoir is located within the Chesapeake's spacing unit;
- (b) only the slightest portion of this Strawn reservoir extends into the Yates' tract and is insufficient to provide any recoverable oil for Yates;
- (c) Chesapeake has successfully drilled ten Strawn oil wells in succession based upon locating each well at the point of greatest thickness as determined by 3-D seismic data;
- (d) the greatest thickness of this Strawn mound is 80 feet, substantially all which is located between 330 feet and the southern boundary of this spacing unit;
- (e) any attempt to locate this well at a standard location will substantially increase the risk of drilling a dry hole or an uneconomic producer; and
- (f) the optimum well location in this spacing unit is at the approved unorthodox oil well location which is along the strike of the maximum Strawn thickness.

10. At the hearing, the Division was advised that the lease upon which Chesapeake desired to drill this well would expire in early February, 1998.

11. On December 15, 1998, Chesapeake submitted its proposed order and advised the Division and Yates that the subject lease would expire on February 1, 1998.

12. On December 29, 1997, Yates submitted its proposed order.

13. On January 7, 1998, the Division entered Order R-10937 and found that Yates' geologic evidence and testimony was **insufficient** to support its contention that it had 60% of the Strawn reservoir under its tract and rejected Yates' contention that the Division should deny the application or impose a 60% production penalty.

14. Division Order R-10937 approved Chesapeake's unorthodox well location, among other things, because Chesapeake provided substantial geological evidence which demonstrated a necessity to grant a well location exception for this well in order to prevent waste and protect correlative rights.

15. On January 14, 1998, in order to save its lease and protect the correlative rights of those interest owners, Chesapeake commenced drilling the Salbar "16" Well No. 1 at the unorthodox well location approved by Division Order R-10937.

16. On January 15, 1998, Yates applied to the Commission for a De-Novo hearing.

17. On January 23, 1998, Yates requested that the Commission stay Order R-10937.

II. ARGUMENT

THE COMMISSION SHOULD DENY YATES' MOTION

In support of its request for a stay, Yates advances waste and correlative rights arguments which it already presented to Examiner Catanach on December 4, 1997 and which were rejected by Division Order R-10937.

Now, Yates claims that "The purpose of an equitable stay is to preserve the status quo." However, Yates fails to explain how it can be equitable to Chesapeake for the Commission to issue a stay which, if granted, will cause the lease on which Chesapeake's well is located to expire prior to any Commission

hearing of this case. Yates' motion jeopardizes the correlative rights of Chesapeake and the interest owners in its spacing unit who will be either forced to withdraw their application and move the rig to a standard location which will be either marginal or non-productive, or in the alternative to lose their lease.

Yates is wrong when it contends a DeNovo hearing is meaningless if this order is not stayed.

Yates' contends that if this well is drilled, then "this de novo proceeding will be rendered meaningless." That simply is not true. The Commission can still review the evidence in this case and determine if it agrees with the Division Examiner or not. If Yates can now prove what they failed to prove before the Examiner, then the Commission has the authority to adjust the current 10% production penalty imposed on this well.

This is similar to another Stay requested by Yates and denied by the Commission. On January 24, 1997, in competing compulsory pooling proceedings between Yates and KCS Medallion (Cases 11666 and 11677), Yates sought to have Division Order R-10731 stayed pending a DeNovo hearing. The Commission denied the Yates motion because KCS Medallion had to commence the disputed well in order to save its expiring farmout.

Likewise, in order to protect its correlative rights and to save its lease from expiring on February 1, 1998, Chesapeake has commenced the drilling of the Salbar "16" Well No. 1 at the unorthodox well location approved by the Division.

There is no merit to Yates' claim that unless this order is stayed, it will be required to drill an "unnecessary well"

Yates claims that if this well is drilled at the Division approved location, then Yates may be forced to drill an offsetting "protection well". While Chesapeake demonstrated at the Examiner hearing that there was no merit to Yates' claim, the fact is that Yates' brought that result upon itself.

On December 1, 1997, Chesapeake offered to Yates, among other things, that a working interest unit be formed covering Yates' N/2SW/4 tract and Chesapeake's S/2NW/4 tract such that each would have a similar interest in each tract. Such a solution would have allowed Yates to participate in the Salbar "16" Well No. 1. Yates' rejected that solution, yet now asks the Commission to stay the drilling of this well because Yates may find it necessary to drill its own offsetting well. Yates waived this argument when it decided not to accept Chesapeake's offer that the companies mutually develop this very unique Strawn reservoir.

Yates is wrong when it contends Strawn oil wells should not be granted well location exceptions from special pool rules.

Yates contends that the Division should not grant exceptions from special pool rules. Yates asks the Commission to ignore modern, useful, essential 3-D seismic data and to confine itself to rules and regulations that limit the ability of the Division as a regulator to approve and the applicant as the operator to drill Strawn oil wells at the optimum location in these reservoirs.

It is the practice and policy of both the Division and the Commission to grant well location exceptions from special pool rules when there is substantial evidence to demonstrate to do so is necessary to prevent waste and/or protect correlative rights.

Chesapeake provided the Division Examiner with substantial geological evidence which demonstrated that the use of 3-D seismic data has been successfully used to discover new Strawn reservoirs that require special exceptions in order to be drilled.

Chesapeake demonstrated to the satisfaction of the Division that the Yates' tract is non-productive of oil from this Strawn reservoir and therefore the Salbar Well location presented no reasonable probability of drainage of Yates' spacing unit. Accordingly, only a 10% penalty was assessed against the Salbar Well's production from the Strawn reservoir.

The Division also determined that Yates' proposed 60 % production penalty based upon the distance the subject well encroaches towards the south boundary is unreasonable and inequitable and should not be utilized in this case.

Not happy with the Examiner's decision, Yates renews its same argument for strict compliance with the well location requirements for this pool. Unfortunately for Yates, such an argument is inconsistent with the fact that in numerous cases, Yates has sought and obtained approval for special well location exceptions from special pools rules. For example, in 1996, not satisfied with the existing 160-acre well spacing rules for the there Pecos Slope-Abo Gas Pools, Yates sought and obtained Division Order R-9976-C which approved 80-acre infill wells. See NMOCD Cases 10793, 10981, 11004, 11421 and 11422) Then in August, 1997, still not satisfied with the special flexibility of those rules, Yates sought 9 well location exceptions from the Special Rules and Regulations for the Pecos Slope-Abo Gas Pool. See Case 11823). No doubt, further search of Division files will reflect a course of conduct by Yates in which it seeks special exceptions from special pool rules when Yates thinks it is necessary.

Chesapeake, like Yates, is seeking a special exception when it is necessary. There would be no point for the Division to have an Examiner hearing process if all of us had the ability to see some 8,000 feet under the surface and know that when the Division adopted special rules then those rules

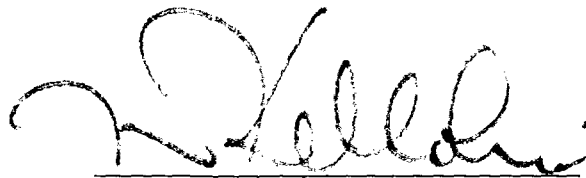
would never be amended or exceptions granted. Fortunately, the Division has a hearing process which affords all parties the opportunity to obtain exceptions when necessary.

CONCLUSION

Yates's motion for a stay must be denied because Yates failed to satisfy one of the essential elements for granting a stay--that no substantial harm will result to any interested party.

Yates failed to explain how it can be equitable to Chesapeake for the Commission to issue a stay which, if granted, will cause the lease on which Chesapeake's well is located to expire prior to any Commission hearing of this case.

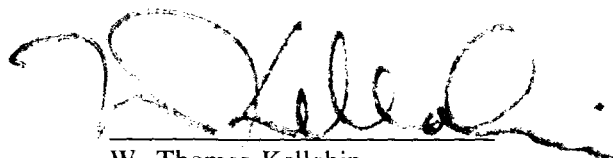
Respectfully submitted,



W. Thomas Kellahin, Esq.
P. O. Box 2265
Santa Fe, New Mexico 87504
Attorneys for Chesapeake Operating, Inc.

CERTIFICATE OF SERVICE

I certify that a true copy of the foregoing pleading was delivered to William C. Carr, Esq, counsel for Yates Petroleum Corporation, this 28th day of January, 1998.



W. Thomas Kellahin